

Normalization and Change at the Same Time



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Portfolio Manager

VanEck Emerging Markets Fund

GBFAX | EMRCX | EMRIX | EMRYX | EMRZX

Performance Review

The VanEck Emerging Markets Fund (the “Fund”) returned 3.70% during the second quarter of 2021, underperforming its market index benchmark, the MSCI Emerging Markets Investable Market Index (“MSCI EM IMI”), which returned 5.73% for the same period.

Average Annual Total Returns (%) as of June 30, 2021

	1Q21 [†]	1 Yr	3 Yr	5 Yr	10 Yr
Class A: NAV (Inception 12/20/93)	3.70	30.96	9.49	12.24	5.40
Class A: Maximum 5.75% load	-2.26	23.43	7.35	10.92	4.77
MSCI EM IMI	5.73	43.21	11.38	12.86	4.31
MSCI EM Index	5.05	40.90	11.27	13.03	4.28

The table presents past performance which is no guarantee of future results and which may be lower or higher than current performance. Returns reflect applicable fee waivers and/or expense reimbursements. Had the Fund incurred all expenses and fees, investment returns would have been reduced. Investment returns and Fund share values will fluctuate so that investor’s shares, when redeemed, may be worth more or less than their original cost. Fund returns assume that dividends and capital gains distributions have been reinvested in the Fund at net asset value (NAV). Index returns assume that dividends of the Index constituents in the Index have been reinvested. Performance information current to the most recent month end is available by calling 800.826.2333 or by visiting vaneck.com.

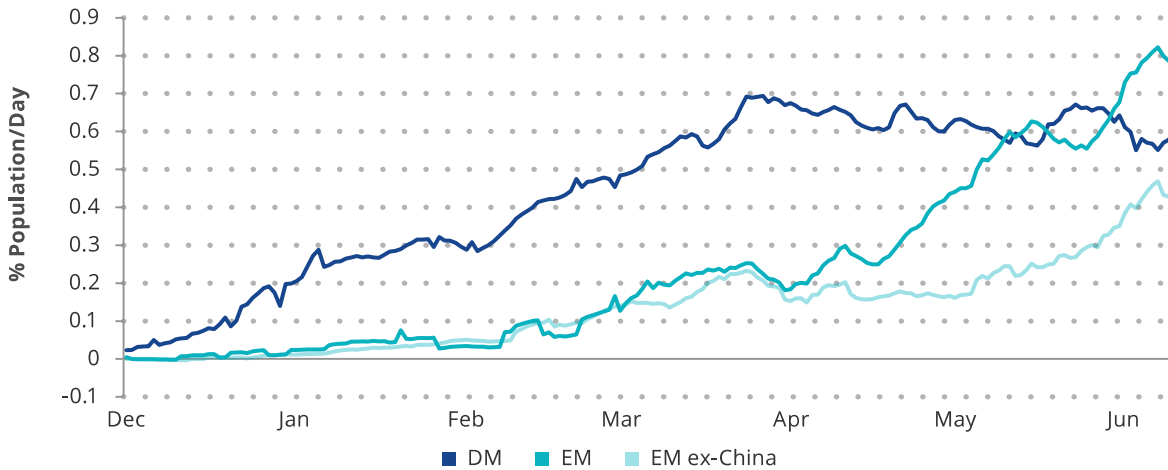
Expenses: Class A: Gross 1.53%; Net 1.53%. Expenses are capped contractually until 05/01/21 at 1.60% for Class A. Caps exclude acquired fund fees and expenses, interest, trading, dividends, interest payments of securities sold short, taxes and extraordinary expenses.

Market Review

The second quarter in emerging markets was broadly a positive quarter, albeit with significant underlying debate and concern on certain key topics such as inflation, commodity prices, China regulation and the impact of digital or crypto currencies.

On the positive side of the ledger, mobility has generally increased and overall there is a decent impetus towards normality. In part, this is driven by a significant increase of the rate of vaccination in emerging markets. Availability of vaccines and actual vaccination rates have generally surpassed expectations from a few months ago, but many emerging markets (and some developed markets, such as Japan) were starting from low levels of achieved vaccination. Additionally, whilst economic activity has improved in aggregate, relatively small outbreaks have occurred and can cause proximate and immediate issues. One example would be the recent disruption in China’s southern ports caused by a Covid-19 cluster.

Vaccine Trajectories - When Do Regions Overtake the U.S.?

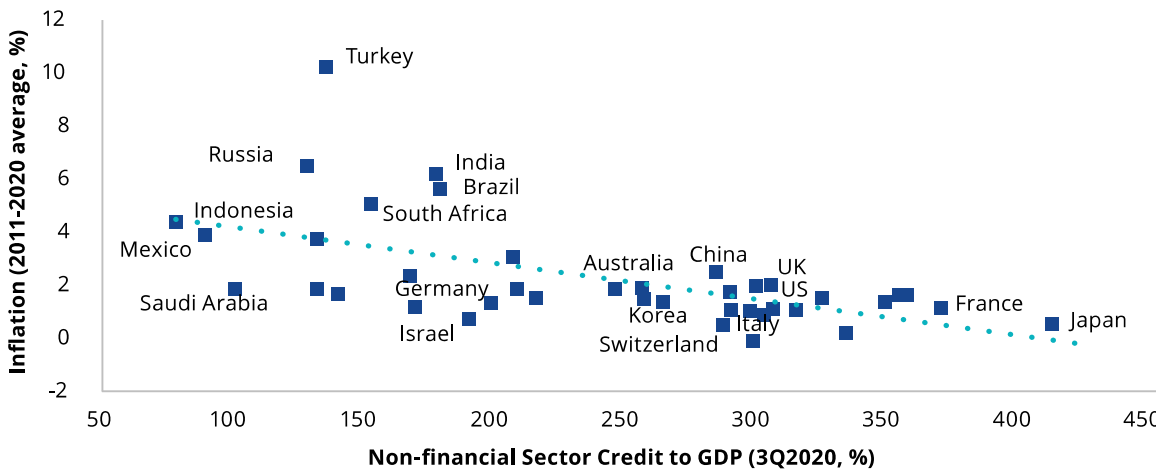


Source: UBS, Our World in Data. Data as of June 25, 2021.

Whilst global growth is impressive, driven by a cocktail of year-over-year (YOY) comparisons, near normal mobility in the U.S. and continued super-relaxed monetary and fiscal policies, it is not without challenges. Supply chains are sometimes stretched and vulnerable and previous underinvestment in commodities is coming home to roost in an environment of rapidly accelerating demand. This has given advocates of inflation some immediate ammunition to argue for higher inflation. But the debate is not about relatively temporary observations. Rather it is about long-run expectations where the outlook is much less clear, as secular forces of debt, demographics and digitization may conspire to keep generalized inflation low.

Debt vs Inflation

Higher debt leads to lower inflation and vice versa



Source: BofA Global Research, BIS, Bloomberg, Thomson Reuters Datastream. Data as of March 17, 2021.

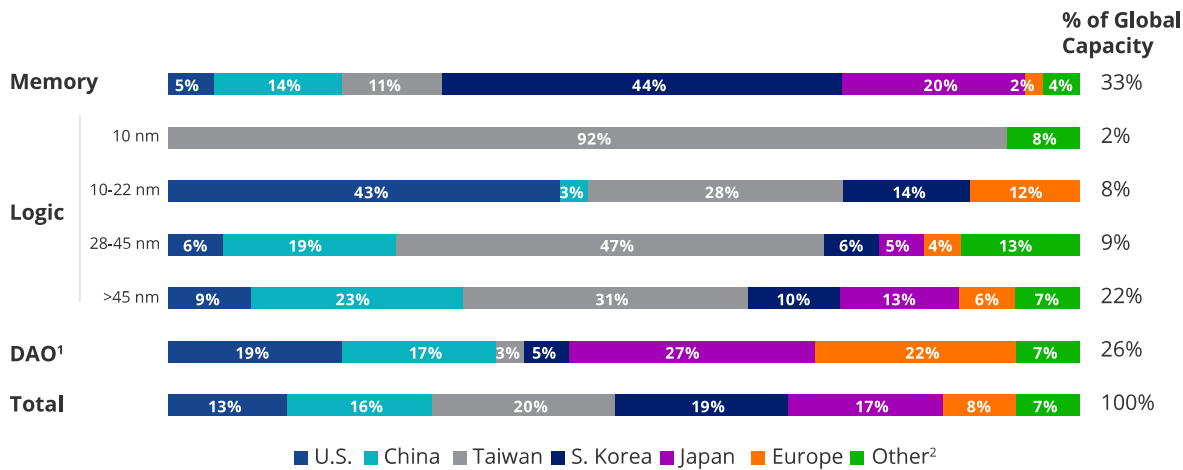
In addition, despite the headline driven narratives on current inflationary pressures, we see tangible signs of slackening demand for some physical goods, combined with positive supply side response, which makes us even less convinced about an ingrained inflationary rhetoric going forward. Certainly, the behavior of the treasury market does not portray much concern about that possibility, in our view. So low inflation and low rates for the foreseeable future should set up a positive environment for structural growth going forward, right? Well, not so fast, there are caveats.

One is that the unprecedented global disruption caused by the pandemic, combined with the rapid evolution and acceleration in certain industries, has exposed structural issues which have significant investment implications. For instance, the adoption of electric vehicles and the increasingly pariah-like status of fossil fuels have conspired to drive up the prices of certain commodities like copper and crude. We believe one benefit for us, is that some commodity industries (like copper) are now exhibiting more structurally attractive (and less cyclical) characteristics than before.

Another example is the semiconductor supply chain. East Asia dominates fabrication of certain areas of semiconductors. Particularly notable is the dominance in advanced logic¹ by Taiwan and South Korea.

~75% of the Fabrication Capacity Is Concentrated in Northeast Asia

In particular, all advanced logic capacity <10nm is currently located in Taiwan and South Korea



Source: BGC, UBS. Data as of 2019.

As a building block in many areas of life, the vulnerability through such concentration has raised increasing concerns, not just on a short-term basis, as seen in the availability of chips for auto production, but on a long-term strategic basis, as China emerges as very significant competitor in the global arena. To be sure, we can anticipate a steep increase of investment in China and the U.S. in this sector. Much of which will involve government involvement, by subsidy or direct investment. The contours of the industry in the medium term are therefore subject to increased uncertainty as non-economic considerations and political actors become more involved.

And it is not just semiconductors. We believe that the pendulum has swung in favor of increasing government involvement/ regulation of some of the most interesting, structurally growing areas that we invest in. In particular, there has been a notable increase in regulatory activity in a number of areas in China. Industries such as after-school tutoring, ecommerce and ride-hailing have all been a focus.

It is true that many regulations will ultimately create a better end point of fairer, more sustainable industries, but the journey can be arduous and uncertain. Investors don't like uncertainty. In addition, for a number of the more recent China related listings in the internet space, we question moats² of their business models.

In summary, we believe the macro environment, with subdued inflation and low rates, even as global activity normalizes, may be rewarding for forward-looking, sustainable and structural growth investors in emerging markets. But the focus has to adjust to a landscape of changing regulatory and industry dynamics, potentially creating a compelling, alpha generation opportunity for active investors in the space.

¹ Advanced logic is defined as <10nm and currently located in Taiwan and South Korea, as outlined in the chart below.

² A moat is a sustainable competitive advantage that is expected to allow a company to fend off competition and sustain profitability into the future.

Fund Review

On a sector level, Industrials, Real Estate and Healthcare contributed to the Fund's relative performance, while Consumer Discretionary, Consumer Staples and Materials detracted. Our long-standing underweight in Materials and Energy negatively impacted performance in the quarter, as commodity prices soared. Somewhat surprisingly, the Consumer Discretionary sector performed poorly in emerging markets; as a result, our significant overweight in that sector contributed negatively for the quarter. Within the sector, the uncertainty around after school tutoring regulations in China significantly impacted New Oriental Education & Technology Group, Inc. (EDU), whilst Consumer Staples names such as China Feihe, an infant milk formula company, and Yifeng, Chinese pharmaceutical business, impacted our Fund's performance negatively as well. On the bright side, within the Industrials sector, we benefitted from good stock selection driven by our holdings in Vamos, Brazilian truck rental company, and International Container Terminal Services, Inc. (ICTSI), a global container ports business.

On a country level, Kazakhstan, Brazil and the Philippines helped the Fund's performance on a relative basis, whereas India, China and Taiwan detracted. The Fund did notably well in some of the smaller countries (i.e., Kazakhstan, Georgia), whilst an overweight in Egypt was a negative contributor. In terms of selection, Brazil did well, whilst exposure to the Financials sector in India negatively impacted stock selection returns there.

Top Contributors

Top contributors to return during the quarter:

- **China Education Group Holdings Limited** (2.45% of Fund net assets*) is an M&A focused private higher education provider in China. The company operates universities and a vocational college and enrolls students across all provinces in mainland China. China Education provides bachelor's degree programs, junior college diploma programs and vocational education programs. Our thesis of an M&A driven, structural growth business model that should deliver 20% CAGR over the foreseeable future continues to play out. In addition, the company has definitely been in favor recently as it plays the long-term, structural growth trend of growing private education while avoiding some of the regulatory pressure on the K-12 after school space.
- **WuXi Biologics Inc.** (1.21% of Fund net assets*) is a global leader in biologics R&D outsourcing services, offering integrated end-to-end solutions to biopharmaceutical companies. The company's "follow the molecule" strategy and one-stop-shop offering have allowed the company to establish a dominant position in China's rapidly growing biologics outsourcing market, with 75% market share.³ WuXi's strong performance was driven by a greater than expected addition of new projects. The disruption caused by Covid-19 has highlighted the value proposition of dual sourcing for drug development. Management hinted that Covid-19 antibody and vaccine revenue in 2021 could be as much as total revenue generated in 2020.
- **International Container Terminal Services, Inc.** (ICTSI) (1.69% of Fund net assets*) has become a leading operator, innovator and pioneer in its field of acquiring, developing and operating freight ports and terminals worldwide. The company has a long track record in acquiring terminals and adding substantial value by enhancing their efficiency. The management's knowledge, skills and expertise also enable us to navigate and operate in different political and economic environments, giving them unique exposure to the long-term structural growth trends in non-G7 trade growth trends. The strong performance over this period further reiterates the non-cyclical nature of this business as global trade normalizes in the post-Covid environment.

Top Detractors

Top detractors to return during the quarter:

- **New Oriental Education & Technology Group, Inc.** (EDU) (0.47% of Fund net assets*) is the largest provider of private educational services in China.⁴ Renewed fears of further regulation of out of school tutoring impacted EDU's performance in the quarter. Concern about the amount of academic cramming that students are undertaking, in addition to regular school, weighed down the whole sector. However, we think that some of the potential regulations, such as limits on advertising, will relatively benefit a strong incumbent, such as EDU.
- **Prosus N.V. Class N** (2.53% of Fund net assets*), a subsidiary and recent spinoff from our long-time holding in South Africa's Naspers, comprises a portfolio of leading internet assets outside of South Africa across Asia, emerging Europe, MENA and LATAM. In addition to its 31% stake in Tencent Holdings and 21% stake in Delivery Hero (both portfolio companies of the Fund), Prosus is heavily invested in three key e-commerce verticals that are beneficiaries of structural growth in digital trends globally, namely online food delivery, online classifieds and payments & fintech. Despite positive indications about operating profitability progress for Prosus' non-Tencent assets, the launch of a further attempt to lower the discount to its NAV was met with some disagreement amongst market participants, many of whom are concerned about the complexity of the deal. Consequently, Prosus performance has been challenged whilst the proposal is outstanding.

³ Source: Company Data.

⁴ Source: VanEck Research.

- **Alibaba Health Information Technology Ltd.** (1.23% of Fund net assets*) is an integrated healthcare information and content service provider in China. The company's share price languished in CY2Q21, as revenue slowed down to 53% in FY2H21 from 74% in FY1H21 due to a high base effect. In addition, the market reacted negatively to management's conservative gross profit margin guidance which will likely be capped in the near term due to a product mix shift towards prescription drug sales. We are encouraged by management's move as they are clearly prioritizing long term sustainable growth by sacrificing near term profit growth to go after the online prescription drug market which is considerably large and underpenetrated with high barriers to entry.

Top Buys and Sells

As might be expected, faced with an evolving investment landscape, both positive and negative, the Fund was more active in terms of entries and exits than has been the norm in the last few years. We exited or reduced our exposure to some areas of China internet, given the enhanced regulatory oversight in the space. For example, our holding in Alibaba Group Holding Ltd. has been actively reduced, whilst we exited our Tencent Music Entertainment (TME) position.

During the quarter, we established new positions in China Feihe Limited, Shanghai Baosight Software and Pharmaron Beijing.

- **China Feihe Limited** (0.95% of Fund net assets*) is the largest and most profitable infant milk formula (IMF) company in China,⁵ with 14.8% of market share in 2020. Its star product, Astrobaby, was launched in 2010 and contributes 51% of sales in 2019. In addition to IMF, Feihe also produces and sells other dairy products and nutritional supplements. It benefits from industry structural opportunities (premiumization and rise of national brands) and is uniquely positioned to further strengthen its lead in the market. Feihe continues to achieve significant market share gain with its key competitive advantages: premium products, differentiated positioning and unparalleled distribution capability.
- **Shanghai Baosight Software Co.** (1.14% of Fund net assets*) is a software company listed in the China A-Share market and its main business is digitizing the country's steel sector and making it more efficient through software and software enabled processes, such as combustion control systems for tempering furnaces and hot blast furnaces. Baosight Software was born out of its parent group company Baosight Steel. Baosight Steel is the largest steel producer in China and is Baosight Software's biggest customer.⁶ As industry consolidation takes its course, we believe Baosight will further cement its dominant position and, in the process, will merge and acquire smaller, lower quality peers, creating an economic "moat".
- **Pharmaron Beijing Co.** (1.17% of Fund net assets*) is a leading pharmaceutical R&D service platform with global service capability. The company's core R&D and manufacturing services focus on facilitating clients in the design of small molecule compounds and synthesize them at scale. Pharmaron is currently the second largest pharmaceutical R&D platform in China in terms of revenue. It will likely continue to be a major beneficiary of R&D outsourcing not only in China but globally, as it ventures into next generation technologies such as gene therapy. There is meaningful upside to the company's share price if it is able to establish itself as a legitimate CDMO⁷ – a space which continues to see significant mismatches in the supply and demand of manufacturing capacity.

During the period, we exited positions in Ayala Land, Laureate Education and Tencent Music Entertainment.

- **Ayala Land** (0.00% of Fund net assets*) is a leading property developer and investor in the Philippines.⁸ A slower than expected return to pre-Covid levels of development and investment income from offices and malls, due to still high Covid cases in Metro Manila caused us to re-appraise valuations and focus our exposure in the Philippines in our two other investments, International Container Terminals and Bloomberry Resorts.
- **Laureate Education** (0.00% of Fund net assets*), based in Brazil, is a leading provider of quality higher education through its global network of degree-granting higher education institutions and state-of-the-art collaborative partnerships with industry leaders. The company has been significantly impacted by the pandemic, in particular affecting its enrollment numbers for the year. After 2020 results, Laureate had to revise guidance down to reflect the tougher scenario for enrollments, revenue and EBITDA. In addition, the company also had to review its entire portfolio of companies and countries where they operate. They continue to focus on the sale of its assets for operations in Mexico and Peru. While Laureate has done well selling various assets at attractive multiples, the concern for investors going forward is whether the looming recession will hurt valuation for the remaining assets. There is lack of catalysts, as the virus has not only impacted the margin recovery story but also the asset sale process.
- **Tencent Music Entertainment (TME)** (0.00% of Fund net assets*) is the largest online music entertainment platform in China⁹ with over 800M unique monthly active users. We were concerned over TME's quasi monopoly over music streaming in China in the context of an unfavorable policy backdrop with respect to predatory practices. In addition, there were concerns over the aggressive monetization tactics employed by the company to boost advertising revenue and the number of paying subscribers at the expense of user experience, which ultimately led to a shrinking user base.

⁵ Source: VanEck Research.

⁶ Source: Jefferies. Data as of March 7, 2021.

⁷ CDMO is defined as a Contract Development and Manufacturing Organization.

^{8,9} Source: Company Data.

Outlook

We believe the asset class is unloved, in particular because of the exceptional bounce in U.S. economic activity and improvement in the U.S. dollar's performance, coupled with a more optimistic outlook for the Eurozone as well. This sets up an interesting environment where U.S. economic exceptionalism fades, China "eases" (at the margin) its micro tightening and the rest of emerging markets catch up with vaccinations and economic mobility.

So far this year, the "toggle" between growth at any price and low quality value has not done any favors to our Fund, which is guided by the philosophy of forward-looking, sustainable and structural growth. However, after an active quarter, we feel very excited about our holdings and strongly believe that we are well positioned with compelling, stock specific opportunities in a diversified portfolio that fits nicely into the evolving emerging markets investment landscape.

† Quarterly returns are not annualized.

* All country and company weightings are as of June 30, 2021. Any mention of an individual security is not a recommendation to buy or to sell the security. Fund securities and holdings may vary.

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The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets countries. The MSCI Emerging Markets Investable Market Index (IMI) is a free float adjusted market capitalization index that is designed to capture large-, mid- and small-cap representation across emerging markets countries.

MSCI Emerging Markets Investable Market Index (IMI) captures large, mid and small cap representation across emerging markets (EM) countries. The index covers approximately 99% of the free float-adjusted market capitalization in each country.

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You can lose money by investing in the Fund. Any investment in the Fund should be part of an overall investment program, not a complete program. The Fund is subject to the risks associated with its investments in Chinese issuers, direct investments, emerging market securities which tends to be more volatile and less liquid than securities traded in developed countries, foreign currency transactions, foreign securities, other investment companies, Stock Connect, management, market, operational, sectors and small- and medium-capitalization companies risks. The Fund's investments in foreign securities involve risks related to adverse political and economic developments unique to a country or a region, currency fluctuations or controls, and the possibility of arbitrary action by foreign governments, or political, economic or social instability.

Investors should consider the Fund's investment objective, risks, charges, and expenses of the investment company carefully before investing. Bond and bond funds will decrease in value as interest rates rise. The prospectus and summary prospectus contain this and other information. Please read them carefully before investing. Please call 800.826.2333 or visit vaneck.com for performance information current to the most recent month end and for a free prospectus and summary prospectus.

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